

Agri-Food Policies in an Open Economy: Scope for Domestic Policies under the WTO

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The Changed Environment for Agricultural Policy

The Uruguay Round has changed the environment in which agricultural policies are enacted. For the first time there are limits on what countries can do to influence markets, prices and farm incomes. The Agreement on Agriculture imposes restrictions on both the type of instruments that can be used and the level of support which can be granted through those instruments. At the border countries can use only import duties, at no more than bound levels, and these levels in many cases are scheduled to be reduced over the next few years. Countries can only continue their use of export subsidies under closely monitored conditions, and no new export subsidies can be introduced. Domestic policies have been categorised under the Agreement into those that are production-neutral and those that are output enhancing. The former (“green box” policies) are permitted without fear of challenge; the latter are monitored and the total amount of such support is reduced over time. Only time will tell how closely these new regulations are observed, and what

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happens if there is an irreconcilable difference between domestic political necessity and international probity. For now we must take the new rules at face value.

In general these new rules on agricultural policies as laid out in the Agreement are consistent with current thinking as to the way in which policies should change to make them more in tune with national economic policy. The problems which have characterised the world market for agricultural goods for so long were as a direct result of the heavy intervention by governments in agricultural markets, with the consequent import restrictions and export subsidies imposed to try to manage the resulting imbalances. It follows that rolling back levels of protection should benefit the world market in general and exporting countries in particular. Better access helps exporters and domestic consumers, and limits on export subsidies improve the predictability and stability of world markets. The countries of the Caribbean have been among those that have suffered from lack of access and unstable world markets, and should benefit from the stricter rules on agricultural trade policy.

However there has been a certain amount of concern over the limits put on developing countries in their policy choice.¹ The restrictions on domestic policies (and on export subsidies) was negotiated and concluded almost exclusively with the developed countries in mind. Moreover the developing countries did not find it necessary to record their base levels for domestic subsidies in their GATT schedules, thus effectively giving them a zero base for coupled policies. This has led some to conclude that developing countries

¹ The new rules for agriculture in international trade are by no means the only set of constraints on domestic policy in developing countries in the post-UR era. Regional trade agreements, structural adjustment programs and domestically generated economic reforms have an equal if not greater impact on policy choice.

emerged the losers from the agricultural part of the Uruguay Round agreement. This notion is reinforced by the likelihood that world prices for many of the products that developing countries buy in world markets could go up as a result of the agreement.

Many countries in the region had already converted non-tariff barriers to tariffs before the conclusion of the Uruguay Round, as a part of their domestic economic reforms. This implies that the direct impact on policy choice is minimal. It has however had the (perhaps unintentional) effect of limiting their use of the special safeguards (see below) which were an option for those situations where new tariffs were imposed during the Round.² The main implication of the “tariffs only” rule for the region is to prevent the reintroduction of non-tariff measures. The level of tariff protection is unlikely to change much as a result of the Agreement: there is little by way of tariff reduction reflected in the schedules of most countries in the region. Countries chose in most cases the option of “ceiling” bindings rather than establishing individual bound rates for each commodity. Many of these ceilings were at rates higher than those actually used. As a result the market access provisions of the Agreement impact on the region more from their position as exporters than directly on their import policies.³

The new constraints on export subsidies are not likely to change domestic policies in the Caribbean region: few countries have had the resources or the need to subsidise exports. None of the countries in the region entered any significant export subsidies in their schedules and therefore will not be able to use them in the future without risking

² By the same token they were not required to grant minimum access quotas on import items, another aspect of the process of tariffication.

challenge. The main impact of the curb on export subsidies is likely to come as a result of the limits on such subsidies in the EU and the US, and on the impact on world markets of such limits. This should increase over time the import prices for some products and make less frequent the incidence of dumped commodities depressing domestic market prices.

The agreement to classify domestic policies into those that are deemed to be trade-neutral (green box) and those that are trade distorting (amber box) clearly has the potential to limit policy choice for developing countries - perhaps even more than for developed countries. Most policy instruments that aim directly to encourage investment in farming and infrastructure, along with nutritional and other poverty programs will fit comfortably in the green box. Price support policies that rely on administered prices to farmers will be subject to constraints. As most developing countries chose to consider their agricultural policy instruments as “green” they did not include in their schedules a base “aggregate level of support” (AMS). This base is therefore, from the point of view of other countries, zero. Developing countries will therefore have less scope to continue such price support policies than the developed countries that registered large AMS payments to agriculture in the base period and thus can continue them at a slightly reduced level for some years to come.

Available Instruments for Agricultural Policy

Even with the constraint on price supports, the range of instruments available to countries in the Caribbean region is extensive. The list of such available domestic policy tools is

³ The sugar quotas of the EU and the US are, for instance, included in the schedules of these countries as “current access” commitments and hence are “bound” in the WTO.

given in Box 1, below. Perhaps the most important category is that of “general services” which includes most of the policies necessary to help agriculture become internationally competitive. Research, extension and training, along with quality control, infrastructure and marketing, come at the top of the list for most Ministries of Agriculture as well as their economic advisors and the representatives of development institutions. Where these items of public expenditure are inadequate to ensure a reasonable income for those farmers that would otherwise be productive in the sector the category of direct payments allows a range of specific targeted programs. Under the category of food security instruments countries can accumulate stocks (if not just a side-product of generous price supports) and run nutrition programs.

As an aspect of “special and differential treatment” for developing countries there is also the possibility of employing subsidies for investment and input use, under certain conditions, which would in developed countries be included in the “amber” box. The amount of support given by amber box policies is also larger for developing countries. The *de minimis* limit is set at 10 percent of the value of production for any commodity-specific program (which could mean a higher level of marketed output), with a similar limit for more general subsidies.

Box 1: Instruments Available for Domestic Policy

1. Green Box policies* (defined in Annex 2 of Agreement on Agriculture)
 - (a) General services
 - research
 - extension
 - training
 - pest/disease control
 - inspection
 - marketing and promotion
 - infrastructural services
 - (b) Direct payments
 - decoupled income support
 - income insurance
 - safety net programs
 - disaster relief
 - retirement schemes
 - structural adjustment policies
 - environmental programs
 - regional assistance programs
 - (c) Food stocks
 - purchased at market prices
 - part of national food security program
 - (d) Domestic food aid
 - nutritional programs
 - food programs for poverty relief
2. ‘Special and Differential Treatment’ clause, for developing countries
 - (a) Investment subsidies, so long as they are generally available
 - (b) Input subsidies, when intended for use of poor producers
 - (c) Diversification support, as subsidy for diversification away from illegal crops.
3. Non-exempt measures
 - (a) Price supports up to a limit (de minimis provision) of “less than 10 percent of farmgate value” (note: this could be a much greater share of marketed value)
 - (b) Up to the AMS constraint agreed in the country schedule (subject to reduction over time), but this was set at zero for most developing countries who chose instead to claim current policies as ‘green.’”
4. Payments linked to acreage limitation programs (not likely to be of much use to CARICOM countries).

It is likely that most of the countries in the region will be able to fashion an agricultural development policy involving these domestic instruments. The main criteria is that the policy instrument not directly stimulate output of one commodity. Taken with the prohibition of non-tariff trade barriers, this implies that development policy will need to be targetted at specific types of situation or individual rather than commodity. Direct action will have to replace broad protection at the border.

Countries do however retain some instruments which can be used at the border - in particular safeguards against disruption of domestic markets by imports. These safeguard measures are listed in Box 2. They range from general balance of payments safeguards which allow for trade barriers to be kept when foreign exchange reserves are low to specific provisions for supplementary duties in those cases where non-tariff barriers were converted to tariffs as a part of the Uruguay Round agreement. The three most likely to be found useful to developing countries in the region are anti-dumping and countervailing duties and emergency safeguards. Anti-dumping duties require a complex procedure for establishing the dumping margin, showing injury to the domestic sector and then linking the two. In practice such a procedure is hardly likely to be useful to prevent sharp price declines on domestic market arising from a flood of imports. By the time the process had run its course the damage would have been done. Most government subsidies against which one would apply countervailing duties are now protected under the WTO schedules. This leaves emergency safeguards, a mechanism quick to use and effective but not suitable for long-term protection of vulnerable industries. A combination of emergency safeguards and adjustment assistance may be necessary.

Box 2: Safeguards available under WTO rules

1. General Balance of Payments safeguards (Articles XII and XVIII B)
 - import restrictions allowed when foreign exchange reserves are low
2. Anti-dumping duties under Article VI and 'Agreement on Implementation'
 - duties allowed when imports less than 'normal' value
 - have to establish dumping margin
 - have to prove domestic injury
 - have to show injury due to dumping
 - UR clarified calculation of dumping margin and injury criteria, de minimis threshold, established time limits for investigation, introduced 5-year sunset clause)
3. Countervailing duties (Article VI and 'Agreement on Subsidies and CVM')
 - countervailing duties allowed when imports benefit from foreign subsidy
 - have to show injury
 - have to show subsidy
 - UR clarified injury determination, subsidy calculation, conditions for ending investigation. But many subsidies are now protected in country schedules.)
4. Emergency Safeguards (Article XIX and 'Agreement on Safeguards')
 - measures can be applied if increased input quantities cause or threaten serious injury
 - proper investigation, public notice, hearing
 - four years and four renewable
 - have to remain "off" as long as they were "on"
 - some discrimination possible among supplies
 - compensation no longer required in first three years (if increase in imports has been absolute)
 - UR attempted to make Article XIX safeguards easier to apply to counter the attraction of anti-dumping and voluntary export restraints.
5. Special Safeguards (in UR Agreement on Agriculture, Article 5)
 - price trigger operates supplementary duty
 - import surge activates supplementary duty
 - can only use one of them
 - only for goods 'tariffed' and indicated in schedule

In addition to these instruments there are certain types of measure which have a less certain legitimacy in the GATT/WTO. These include price bands and variable levies. The advantages and drawbacks of this type of policy are listed in Box 3, below. They need not be protectionist, though it is easy to see how they could become the first step back to granting “relief” from legitimate competition. Though the argument is sometimes made that operating such contingent border taxes within the bound tariff is legal, Article 4.2 of the Uruguay Round Agreement on Agriculture specifically prohibits the use of variable levies, minimum import prices and similar measures other than ordinary customs duties. Even if the level of duties under such schemes cannot be challenged the instruments can be queried - and presumably will be the first time such policies threaten the exports of the major trading countries. For this reason Caribbean governments should be wary of such measures even though they are used by several countries in Latin America.

Box 3. Price bands -- or sliding scale tariffs

- Advantages:
- can tie to moving average of world prices, and hence avoid increasing protection levels
 - apparently ‘safe’ from challenge in WTO if within bound tariff
 - could be made limited in scope, transparent in operation
 - could be harmonized across CARICOM or run at a CARICOM level.
- Problems:
- could be challenged as “variable levies” illegal in the WTO
 - could easily spread to too many commodities
 - trade policy could easily become administered rather than transparent
 - may not be best way of adjusting to low world prices (direct compensation may be better)
 - could become a vehicle for reversion to protection

The WTO and Structural Adjustment Programs

The dictates of structural adjustment and domestic policy reform move countries in the same direction as does the Uruguay Round Agreement. The WTO-consistent types of policy discussed above are also favored by international donors. There are times when the conditionalities appear to move countries at a faster pace than the Uruguay Round would require. Under these conditions there can arise two different problems: (a) whether the WTO schedules in some sense replace those negotiated with the international lenders, and (b) whether there are safeguards that can be attached to the process of liberalisation under structural adjustment that are WTO-consistent. These issues have arisen in at least two cases in the region in recent months. As a result of tariffication of non-tariff barriers as a part of a structural adjustment programme, Jamaica introduced stamp duties over and above the CARICOM Common External Tariff (CET), which had to be reduced according to an agreed schedule. Pressure built up however on the Government of Jamaica to delay this reduction. Later Trinidad and Tobago faced a similar issue. The Government had agreed a plan to convert to non-tariff measures to tariffs and to reduce these tariffs to the CET following a schedule. Concern was expressed that this pace of reduction might prove too fast for the sector to adjust.

The comparison between the pace of adjustment in the WTO schedules and those under structural adjustment programs is a false comparison. The former was never devised as an indication of the desirable pace of adjustment for individual countries: it merely represented the best that countries collectively could agree in a set of complex negotiations. By contrast the particular SAPs that have been negotiated individually reflect specific circumstances and objectives. In a large number of countries, both

developed and developing, the actual pace of reform of agricultural policies exceeds that required by the WTO schedules.

The issue of safeguards against too rapid a movement to the CET is however a legitimate concern.⁴ Obviously all the set of contingent protections (anti-dumping, countervailing duties and emergency safeguards) are still available. But there is some argument for having a safeguard that is designed for situations of rapid reductions of tariffs rather than subsidy-depressed world prices or dumping by overseas firms. Two devices would appear to be useful in this situation: (a) a snapback to a previous step in the tariff reduction schedule if there has been an import surge or a collapse of domestic market prices as a result of the pace of tariff reduction, or (b) the payment of compensation to domestic producers who are injured by the price decline. The latter has a direct fiscal cost but is preferable where local producers are unlikely to become competitive with imports.

The policies which can not be used under the WTO are generally the same as those removed under SAPs. These include non-tariff border measures such as quotas and negative lists, export subsidies, and significant price support programs which are financed through the taxpayer or an increase in the consumer price. Most of what cannot be legally done under WTO rules should not in any case be contemplated by policy makers. Non-tariff barriers are not the appropriate instrument to use for a private-sector trade environment. Export subsidies expend scarce budget funds to the benefit of overseas consumers. Price supports send inappropriate signals to farmers and consumers

⁴ Though this has arisen in terms of the SAPs it can also be cast as a question of moving from a free trade area to a customs union. How do you encourage countries to move rapidly to a common tariff from much higher levels of protection? Some safeguard provisions might be useful in such a transition.

and encourage investment in the wrong activities. Supporting commodity prices is rarely the best way to help individual firms and farmers. The UR constraints still leave ample space for constructive agricultural policies. The individual country still has to determine which of the policy options are chosen.

Forging a Strategy for Agricultural Policy

The set of available instruments would seem to be adequate for designing and implementing an agricultural strategy for the Caribbean region. This strategy could have four components: an investment policy to develop a competitive agriculture within the region; a social policy to address the issues of rural poverty and food security; a trade policy to prevent market disruptions which might jeopardise the other parts of the strategy; and an institutional framework within which the strategy can be implemented.

An active investment policy could have a clearly defined objective and a strategy for implementation. The objective for the region could be to have in place a fully competitive agriculture by the year 2005, when the trade barriers among countries in the Americas are scheduled to have been removed. Implementation could be through a partnership with the private sector, under which the government provides the environment and the private sector makes the investment decisions. The public sector will probably retain a role in the provision of research and extension services to facilitate the development of a competitive agriculture and food industry. Such a policy is consistent with the WTO, with the SAPs and with the objectives of CARICOM. Funds should become available if the investment activities are seen to lead toward to genuine competitiveness.

A social policy is needed to go along with the investment policy, if for no other reason than to secure political agreement. Carefully devised they can also have a positive impact on development by integrating marginal groups of farmers and poor consumers into the mainstream of the economy. Programs will presumably include targetted nutrition programs and schemes such as food stamps to provide purchasing power to consumers in poverty. Provision of basic services in rural areas will assist in the full integration of farmers into the economy and society. Some compensation for those most effected by adjustment to competitive conditions could also be needed to make these changes socially acceptable.

Trade policy still has a role to play, but in a more passive or reactive way than in the past. Countries in the region have agreed to allow free trade within CARICOM, and to establish the CET. A rapid move to complete the arrangements for the liberalisation of the internal market and to solidify the CET is clearly necessary to get the most out of CARICOM. Some of the external trade policies mentioned above could be implemented at the CARICOM level, such as the investigation of dumping and foreign subsidies, with supplemental duties being attached to the CET, rather than leaving each member to devise and operate their own policies. Coordination in negotiations within WTO and with trade partners could also be a function of CARICOM. Similarly in the area of export policy, with several major issues such as the future of preferences on the horizon, a coordinated position would seem to be crucial.

The key to all these aspects of an integrated strategy is an institutional framework that is responsive, inclusive and flexible. Political leadership is necessary to articulate goals. These goals need to be embraced by all those whose cooperation will be needed for their

attainment. This may require a new attitude of public-private partnership to replace paternalism and suspicion. Within the private sector new ways of working together may have to be developed. Market development and quality control are emerging as major determinants of success: each needs institutional support. Research activities need to be focussed on increasing the ability of the agricultural industry to adjust and respond to challenges from outside. Education and training have to extend to all levels of the farm and food sector and again be focussed on adjustment and flexibility. Regional institutions need to be further developed but kept flexible enough to allow changes in the composition of the region and its relation to other parts of the Americas. Change has to be seen as opportunity for improvement. The Caribbean region has to seize the opportunity to develop a competitive agricultural sector within the decade or risk marginalisation in an otherwise integrated world.

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Presented to the Conference on **Global Market Integration and the Agri-Food Sector**,
organised by the Inter-American Institute for Cooperation on Agriculture (IICA) in
association with the Ministry of Agriculture, Jamaica, the Agri-Business Council of
Jamaica, and the US National Center for Food and Agricultural Policy, Kingston,
Jamaica, March 25-27, 1998